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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 10, 2001

APPLICATION OF

VIRGINIA GAS DISTRIBUTION COMPANY

CASE NO. PUE000168

For an Annual Informational Filing

ORDER ADOPTING RECOMMENDATIONS  
AND DISMISSING PROCEEDING

On May 30, 2000, Virginia Gas Distribution Company ("VGDC" or "the Company") filed its Annual Informational Filing ("AIF") for the twelve months ending December 31, 1999.

On November 30, 2000, the Staff filed its report in the captioned matter which included a financial and accounting analysis. Staff noted that it had used an 11.5% cost of equity in VGDC's capital structure for illustrative purposes in its financial analysis since the Company does not have an authorized point or range for its return on equity. Staff explained that the lack of actual operating data made it necessary for the Company to base its application for a certificate of public convenience and necessity, docketed as Case No. PUE930013, on the rates derived from estimates of revenues and costs. Such estimates included a cost of capital that incorporated a return on equity rate of 11.5%.

VGDC filed an application for its first rate increase in August 1999, in Case No. PUE990531. VGDC elected not to seek an authorized return on equity which would have supported a higher rate increase than it had requested in its application. The February 22, 2000 Order entered in Case No. PUE990531 permitted VGDC's proposed rate increase to take effect on January 23, 2000, under the terms of the Joint Stipulation reached between the Company and Staff. The Joint Stipulation specifically provided that no authorized return on equity range would be identified as part of that case.

In its report, the Staff recommended that the Company file Schedules 1, 2, and 3 in its future AIFs as required by the Rules Governing Utility Rate Increase Applications and Annual Informational Filings ("Rules"), 20 VAC 5-200-30, adopted in Case No. PUA990054, to include information for the test year and the four prior fiscal years, i.e., 1996-2000. Staff reported that it used Virginia Gas Company's ("VGC's") consolidated capital structure in its financial analysis because of VGDC's reliance on VGC for financing. Staff observed that VGC, VGDC's parent company, has an application pending before the Commission for approval of VGC's acquisition by NUI Corporation ("NUI"). That case has been docketed as Case No. PUA000079. Staff noted that if the acquisition is approved, the Staff will re-evaluate the capital structure appropriate for ratemaking purposes for

VGDC, giving consideration to the entity issuing debt on VGDC's behalf in the capital markets.

In its accounting analysis, the Staff reported that it had corrected several of the Company's accounting adjustments. The Staff stated that pursuant to a Joint Stipulation in the Company's most recent rate case, Case No. PUE990531, VGDC was required to allocate general plant among VGDC's affiliates, and that the Company has not yet filed an appropriate application under Chapter 4 of Title 56 of the Code of Virginia to address the allocation of general plant. Staff observed that the Company had also agreed in Case No. PUE990531 to file an affiliates agreement, establishing policies on intercompany payables and receivables and on interest on overdue intercompany accounts. Staff reported that it did not object to VGDC filing its AIF for the twelve months ending December 31, 2000, by no later than May 31, 2001, to enable the Company to provide Staff with audited financial information with which to evaluate VGDC's financial and operating results.

On December 18, 2000, VGDC, by counsel, filed its response to the Staff report. VGDC represented that it, in conjunction with Virginia Gas Pipeline Company ("VGPC") and Virginia Gas Storage Company ("VGSC"), intends to file a comprehensive application, addressing allocation methods for passing corporate level parent costs on to affiliate and subsidiary companies,

allocating intercompany payables and receivables, and addressing the interest to be applied on overdue intercompany accounts. It observed that after discussions with the Commission Staff regarding these filings, a decision had been made with the concurrence of Staff to postpone VGDC's application under Chapter 4 of Title 56 until after a final order in Case No. PUA000079 had been entered. VGDC represented that this approach would avoid a series of duplicative filings and an accumulation of unnecessary expenses. The Company maintained that if the merger with NUI is approved by the Commission, a substantial amount of VGC's corporate level costs will be eliminated, and its current methodology for allocating costs to corporate level costs may no longer be valid. VGDC asserted that approval of the merger may result in another affiliate filing for allocating NUI costs to VGC, and in turn, VGC's subsidiaries and affiliates. In its response, VGDC also requested that it be permitted to file its AIF for the twelve months ending December 31, 2000, by May 31, 2001.

NOW, UPON consideration of the Company's application, the Staff's report, the Company's response, and the applicable statutes, the Commission is of the opinion and finds that the Staff's recommendations found in its November 30, 2000 report should be adopted. Further, we will grant VGDC's request to file its comprehensive application under Chapter 4 of Title 56

of the Code of Virginia after an order is entered in Case No. PUA000079. We will require the Company to file its application under Chapter 4 of Title 56 of the Code of Virginia no later than seventy-five (75) days after an order is entered determining the issues raised in Case No. PUA000079. We further find it appropriate to grant the Company's request to file its AIF for the twelve months ending December 31, 2000, by no later than May 31, 2001.

Accordingly, IT IS ORDERED THAT:

(1) Consistent with the findings made herein, the recommendations set out in the Staff's November 30, 2000, report are hereby adopted.

(2) VGDC shall, in accordance with its representations, file with the Commission under Chapter 4 of Title 56 of the Code of Virginia, a comprehensive affiliates application no later than seventy-five (75) days after a final order is entered in Case No. PUA000079.

(3) If VGDC does not seek rate relief, the Company shall file its next AIF, utilizing financial and operating results for the year ending December 31, 2000, by no later than May 31, 2001.

(4) There being nothing further to be done in this matter, this case shall be dismissed from the Commission's docket of

active proceedings, and the papers filed herein placed in the Commission's file for ended causes.